

Copper Valley Electric



Copper Valley Electric Association, Inc.

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May 5, 2008

Office of the Governor
Sarah Palin, Governor
PO Box 110001
Juneau, Alaska 99811-0001

SUBJECT: Capital Budget Appropriations for CVEA

Dear Governor Palin:

I am writing to request your support for capital budget appropriations for Copper Valley Electric Association (CVEA). You may recall monies for CVEA included in last year's capital budget were vetoed in part because the funding source was Railbelt energy money. I understand the door was left open to reconsider the CVEA Projects in a future state budget, which has now been done, and I am writing to urge you to approve the four CVEA projects included in the capital budget.

I hope you will agree that CVEA is worthy of a state investment in infrastructure and electric reliability projects and, moreover, that we could genuinely use some help. The region has struggled economically for many years, and the combination of no load growth and sky rocketing oil prices are driving people from our communities. Since 2004, when oil prices climbed above \$40/barrel, fuel prices have more than doubled the variable component of monthly power bills. Energy sales, which drives the financial health of the Cooperative and which is a good indicator of how the region is doing, have remained flat for a decade and since 2005 have declined 3%.

As we look forward we are focused on successful completion of two important reliability projects, at minimal cost to the customer, and on reducing our reliance on fossil fuels to generate electricity.

- Glennallen Diesel Plant Upgrade Matching Funds \$2,000,000

CVEA operates four power plants; three in Valdez and one in Glennallen. The communities are connected by road and a 138 KV transmission line owned by the Four Dam Pool. The t-line is vulnerable to prolonged outage caused by weather and avalanche (six events since 1986, once as long as nine months). When the t-line is out of service, the GDP must serve the electric load in the Copper Basin. Prime generation in GDP was installed in 1975-76. The GDP upgrade will install a new state of the art, more efficient diesel generator set in the Glennallen Plant.

The total cost of the project is \$3.9 million. In 2003 CVEA was awarded a \$1.9 million matching grant by the federal Department of Energy to construct additional generation in the Glennallen Diesel Plant. The DOE grant requires matching funding from a nonfederal source. If the state appropriation is obtained, this project can be completed at no capital cost to the members.

- Valdez Diesel Plant Substation Upgrade \$500,000

The 10 MVA power transformer at the Valdez Diesel Plant Substation provides voltage transformation from the 24.94 kV provided by the Solomon Gulch circuit to the downtown 12.47 kV distribution system. This transformer is one of CVEA's most critical assets. An extensive maintenance program dictates this vital piece of equipment should be replaced. No other utility in the state has a spare to match the capacity needed for our application. A new unit can be available for delivery in 46 to 52 weeks after receipt of an order at a cost of approximately \$500,000.

- Allison Lake License Application \$1,000,000

While CVEA is fortunate to have the Solomon Gulch Hydroelectric facility in our power supply portfolio, we remain dependent on fossil fuel plants for 40% of our annual generating requirement.

Following completion of several studies in the past year, on March 3, 2008, CVEA filed an application for a preliminary permit to develop the hydroelectric potential of Allison Lake (near Valdez). The permit, which CVEA expects to be awarded in June, is for a three-year period. During the term of the permit CVEA will conduct environmental studies (fisheries, terrestrial, cultural, recreation), work with state and federal agencies (and other stakeholders) and perform engineering work necessary to fulfill the requirements of a FERC license application. The estimated cost to prepare a bonafide license application is \$1 million.

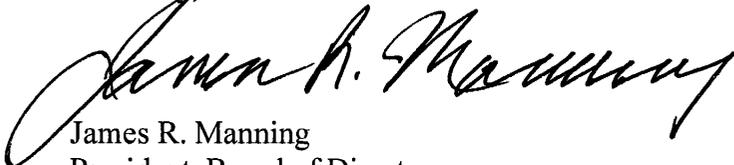
- Intertie Pre-Construction Cost Recovery \$1,500,000

This funding will provide reimbursement for costs incurred to determine the feasibility of the Copper Valley Intertie as required by 1993 legislation that appropriated \$35 million for a zero-interest loan over 50 years to partially finance an intertie that would connect CVEA to the Railbelt grid system. Between 1992 through 1996 CVEA completed studies required by the legislation and worked in good faith with the State of Alaska to advance the project. At the time the legislation was passed in 1993, funds to study the project were removed from the state budget with the explanation that intertie loan fund proceeds would be available to reimburse CVEA for study costs.

In 1996, the state administration indicated their lack of support for the project and CVEA ceased efforts to move the project toward development. However, more than \$1.5 million had been spent by CVEA in studies and pre-construction costs. The intertie loan application was lapsed and CVEA was not provided any reimbursement for costs.

Governor, in spite of the recent difficulties we are experiencing from high oil prices and what it means to the cost of power, CVEA believes recent developments such as the passage of the renewable energy bill, energy plan development, the reconstitution of the AEA under the leadership of Steve Haagenson and the prospect of a gas pipeline project are all positive efforts aimed at making Alaska an energy delivery leader and each will promote economic stability for our State. Copper Valley has and will continue to play a leadership role in Alaska's electric utility industry, and we appreciate your support of our efforts to do so.

Sincerely,



James R. Manning
President, Board of Directors
Copper Valley Electric Association, Inc.